DUN'S REVIEW

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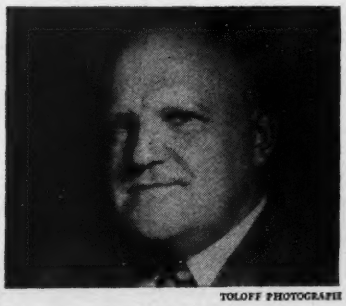
ALLEN WALES

Contents



Toloff Photograph

Clarence Switzer

For the cover of its first number in the one hundred and sixty-ninth year of this country's independence Dun's Review presents an arrangement of our national emblems, the American Eagle guarding the flag of the nation. In this there is continued the spirit of the occasionally published brochures "The Flag of Destiny."

Like the much-admired and well-remembered flag on the June 1943 number this is from a painting by Clarence Switzer, Art Director of this magazine. His abilities are reflected in the appearance of each issue of Dun's Review as well as of other Dun & Bradstreet publications and printed matter. Although his hours with flags and eagles number many, his painting interests include landscapes and portraits as well.

Experience shows that there are demands for additional reproductions of such covers. A limited number, therefore, have been matted for framing and are available without charge while they last. The matted prints, showing the painting only, measure 13⅜ by 15⅞ inches.

Dun's Review, July 1944. Published monthly by Dun & Bradstreet, Inc., 290 Broadway, New York 7, N. Y. . . . Vol. 52, No. 2195. . . . $4 a year. . . . Member C.C.A. Copyright 1944 Dun & Bradstreet, Inc. . . . Printed in U. S. A. . . . Frontispiece from Charles Cushing.

NEW YORK SKYLINE—PINNEY PHOTOGRAPH

HERE Mr. Foulke continues his report—begun last month—on types of Federal financing available to those producing war goods. Both present and postwar advantages and disadvantages of the various plans under different conditions are discussed. Effects of each on a company's financial position are considered. Policies of the several Government agencies are noted and differences in policies pointed out.

GOVERNMENT FINANCING OF WAR CONTRACTORS—Part II

ROY A. FOULKE
Manager, Specialized Report Department
DUN & BRADSTREET, INC.

The use of progress and advance payments in financing war contractors were discussed in Part I of Mr. Foulke's article in the June number. This month he presents the V, VT, and T loans and compares types of Government financing. An important recent T loan development is described in the note at the end of this study, on page 42.

THE suggestion for a type of financing which subsequently evolved into the V loan was initially in correspondence from Rear Admiral Emory S. Land, Chairman of the U. S. Maritime Commission, to Donald Nelson, Chairman of the War Production Board, dated March 7, 1942. The first loan was made eighteen days later.

The V loan was officially created by a regulation of the Board of Governors of the Federal Reserve System, to become effective April 6, 1942. This regulation was based on and issued pursuant to Executive Order No. 9112 of the President, dated March 26, 1942 under the First War Power Act of 1941, as a means of assisting the production of war equipment, materials, and supplies.

The regulation was created primarily to solve the problem of getting adequate credit to subcontractors that were operating with inadequate net working capital in all parts of the country, and that had run up against practical difficulties in obtaining advance payments through prime contractors or higher tiers of subcontractors, and secondarily, to take the Government out of the job of policing loans [advances] and to turn that activity over to established and experienced banking channels. This background has been succinctly explained by Mark A. Brown, Vice-President, Harris Trust and Savings Bank, Chicago, Ill.:

"In March, 1942, the Federal Government through its various war agencies had outstanding approximately $3,000,000,000 of advances and had practically exhausted its staff to adequately police them. Demands were growing, because it had become known that all a [prime] contractor had to do was to ask for an advance of about 30 per cent [in the case of the War Department] of his contract and he would get it without much trouble or red tape. . . . In order to avail itself of bank credit, which was more than adequate at the time, the Government said, 'Instead of advancing $900,000 to this contractor we will let the banks lend him $1,000,000 and the Government will guarantee 90 per cent of it or $900,000' "[1]

Simultaneously, prime contractors that had been unable to obtain adequate financing from their depository banks and trust companies and that had been unwilling to obtain credit from other available sources, such as a Federal Reserve Bank or the Reconstruction Finance Corporation, now had available to them a revolutionary source of bank credit through accustomed banking channels. This type of credit also took care of complicated situations such as the mixed prime and subcontractor, and the prime contractor that had contracts from several of the services in the War Department, or from both the Army and the Navy.

The Executive Order of the President provided a new financing technique to fit this emergency by authorizing three agencies of the Federal

[1] Address delivered at a Round Table Conference on "VT Loans and Conversion Financing" held by the National Industrial Conference Board, Inc., New York, January 20, 1944.

Government, the War Department, the Navy Department, and the U. S. Maritime Commission to make or to guarantee loans, discounts, and advances for the purpose of financing any contractor, subcontractor, or others engaged in any business or operation deemed by these departments to be necessary, appropriate, or convenient for the prosecution of the war.

The prime contractor, the subcontractor, the mixed contractor might be in sound shape or in unsound financial condition. It made no difference, according to the Executive Order, so long as they were producing for the war; the immediate interpretation, however, was another story as in the earlier months many sound companies with adequate bank credit were unable to obtain V loans with their collateral advantages from the Navy Department. The War Department has been more liberal in its interpretation and few if any requests have been turned down because of the financial strength of the applicant. We shall come to this point again as we notice the gradual modifications in V loans.

The Guarantee—The Federal Reserve Banks simultaneously were appointed fiscal agents of these three departments of the Federal Government for the purpose of guaranteeing part or all of any such loans, discounts, and advances made by a financing institution where such institutions did not assume all of the risk under the V loan technique.

This new technique of extending bank loans on the guarantee of any one of the three specifically named agencies of the Federal Government covers a multitude of situations, but the Executive Order was issued for the fundamental purpose of solving the one basic problem of getting credit to subcontractors, of carrying essential credit facilities to the under-manufacturer. Peacetime credit rules and standards no longer could hold up the production of war materials and supplies where plant facilities were available; wherever necessary, credit would now be partly or wholly guaranteed by the War Department, the Navy Department, or the U. S. Maritime Commission.

The guarantee is in the form of an agreement by the War Department, the Navy Department, or the U. S. Maritime Commission, acting through a Federal Reserve Bank as the fiscal agent of the United States, to purchase from the financing institution, within ten days after demand, a specified percentage of the loan described in the loan agreement.

Loans under Regulation V are made to cover the credit needs of a manufacturer, as indicated by a qualified analysis of his budget, where the concern is filling one contract; or under the provision of a revolving credit agreement set up for a definite period of time, usually for one year or somewhat longer, also based on a qualified analysis of his budget, where a manufacturer has been awarded several contracts, either prime contracts or subcontracts or both.

Loans under Regulation V

In Millions of Dollars

Date	Total Amount Authorized	Outstanding: Total	Outstanding: Portion Guaranteed	Outstanding: Per Cent Guaranteed
1942—June 30	311	81	70	85.9
Sept. 30	944	428	357	83.4
Dec. 31	2,688	804	632	78.7
1943—Mar. 31	3,725	1,246	999	80.2
June 30	4,719	1,428	1,154	80.8
Sept. 30	5,452	1,708	1,413	82.7
Dec. 31	6,563	1,914	1,602	83.7
1944—Mar. 31	7,467	2,010	1,680	83.6
Apr. 30	7,647	1,991	1,666	83.7

In either case, a formal loan agreement generally is negotiated between the depository bank and the borrower imposing certain conditions and restrictions upon the borrower and providing for the acceleration and the maturity of the credit in the event of default of certain conditions. Loan agreements, many of which have become extensive documents, were developed by the banks. Loan agreements were not and are not required by either the War Department, the Navy Department, or the U. S. Maritime Commission. There are cases where V loans have been granted with no formal loan agreements. These loans generally are secured by the assignment of specified war contracts and the proceeds to be received under these contracts.

In October 1942, General Motors Corporation announced the completion of arrangements for a revolving credit of $1,000,000,000[2] under Regulation V, the largest loan of this type on record. Approximately 475 banking institutions participated in this loan which was arranged by the Federal Reserve Bank of New York under a guarantee by the War Department. This agreement runs to February 28, 1946. On total borrowings up to $250,000,000, the guarantee is 50 per cent, between $250,000,000 and $500,000,000 75 per cent, between $500,000,000 and $650,000,000 85 per cent, and above that amount, 90 per cent.

The percentage guaranteed by the War Department on this credit varies with the aggregate amount of the loan outstanding; the step-up in guarantee covering the entire amount outstanding, not the bracket. If $250,000,000 credit is being used, for example, the banks have the risk on 50 per cent or $125,000,000 and the War Department guarantees $125,000,000. If $1,000,000,000 is being used, the banks have the risk for 10 per cent or $100,000,000, a drop of $25,000,000 from the first bracket, and the War Department guarantees $900,000,000. Of this credit only $100,000,000 has been used, and that for a period of only six months, from November 1942 to May 1943. Since May 1943 few, if any, automatic guarantee step-ups have been accorded.

Protection at Termination

Regulation V not only provides a revolutionary technique of extending bank credit when it is unavailable, according to traditional banking policy, routine, theory, or credit practice; it also provides additional protection automatically in case of cancellation of war contracts by the Federal Government for its own convenience under two sections of the guarantee, Section 5 for the protection of the financing institution and Section 6 for the protection of the borrower.

These provisions are of a far-reaching nature, providing for all foreseeable contingencies as they may apply to the credit needs of the borrower for production purposes during the war, and, to a degree, for the readjustment period following cancellation of orders during the war, as well as after the war is won. These two sections may be briefly described as follows:

Section 5, known as the "step-ladder clause," provides that in the event of cancellation of more than 25 per cent of the dollar amount of the borrower's contracts for the convenience of the Government, the guarantor shall be

[2] This is the largest bank loan ever extended to an industrial or commercial business enterprise. As of June 30, 1942, the aggregate capital and surplus of all national and state commercial banking institutions was $5,750,848,000. The total lending capacity, on an unsecured basis of all commercial banking institutions at 10 per cent of this amount is approximately $575,000,000, an amount which is substantially less than this $1,000,000,000 credit arranged under Regulation V.

obligated to purchase, in addition to the part already guaranteed, a percentage of the unguaranteed portion of the loan corresponding to the ratio which the contracts cancelled bear to the contractor's uncancelled backlog of contracts.

If 90 per cent of the loan, for example, is already guaranteed, and 50 per cent of the borrower's war contracts are cancelled, the guarantor is obligated to purchase 50 per cent of the unguaranteed portion thereby increasing the guarantee to 95 per cent of the total. In the event of cancellation of all of the borrower's contracts, the guarantor is obligated to purchase the entire loan, if called on to do so by the financing institutions, thus eliminating all risk of loss to the lending bank.

Section 6 provides that in the event of cancellation of more than 25 per cent of the borrower's war contracts for the convenience of the Government, the maturity of a percentage of the loan corresponding exactly to the percentage of investments in contracts cancelled to the total backlog of contracts, shall be suspended for a period ending ten days after the borrower shall have received full payment due under his contracts. During that period, the borrower is fully relieved of any obligations for the payment of interest or principal on the portion of the loan suspended; the guarantor paying interest less the guarantee fee but not to exceed 2½ per cent per annum in the aggregate if this part of the loan continues to be held by the bank.

Prevents Forced Liquidations

Under this arrangement, the forced liquidation of inventory during a period of possible declining prices is unnecessary. During this period so absolutely critical to the contractor, whether a prime contractor or subcontractor, no call is made by the lending bank or banks on the working capital of the manufacturer to liquidate that part of an obligation incurred to finance contracts now cancelled (if more than 25 per cent of the borrower's war business) until settlement is obtained on those particular contracts.

Through the operations of these two sections of the guarantee agreement, both the lender and the borrower are protected during the period of adjustment following the immediate cancellation where the cancellation is for the convenience of the Government, and until final payment is made to a prime contractor by the Government, or by a prime contractor to a subcontractor. Here is a most effective shock-absorber. The borrower is protected against the precipitate maturing of loans upon cancellation of more than 25 per cent of his war production contracts, and against what might be ruinous accumulation of interest charges during the suspension of operations which are beyond his control.

The bank continues to receive interest on any part of the loan which it holds, and can require the guarantor, at any time, to take over the guaranteed part, including the portion suspended. At the same time, the percentage guaranteed increases as contracts are cancelled, reaching 100 per cent in the case of total cancellation. These two sections do not become applicable unless a minimum of more than 25 per cent of the dollar amount of war contracts held by the borrowing contractor is cancelled.

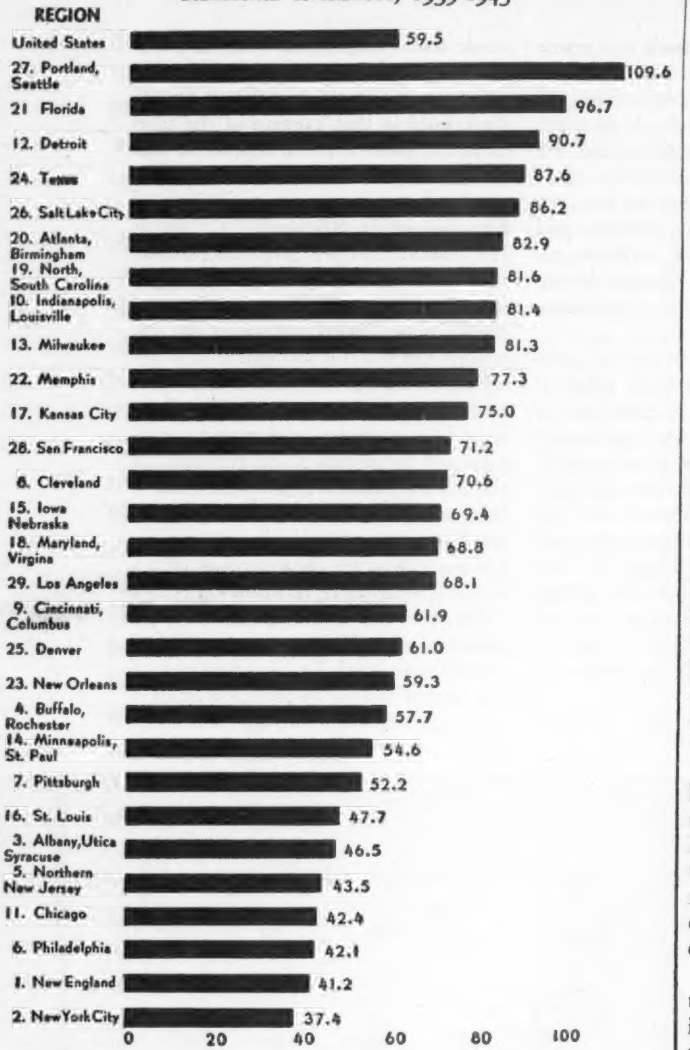
This automatic extension of loans made under Regulation V in the event of cancellation of war contracts applied, in the early months of the V loan, only to that portion of the loan in actual use. That is, suppose a subcontractor producing tires for airplanes obtained a commitment for a loan of $500,000 under Regulation V, but at the time of 100 per cent cancellation, only $200,000 of the loan was in use. Then the maturity of the $200,000 would have been automatically extended until a full settlement was obtained on its war contract, and no part of $300,000 not in use at the time could have been borrowed unless such a contingency happened to be provided in the loan agreement. Most current V loan agreements contain some such modification, as will shortly be explained, allowing the extension of additional loans after termination.

Many manufacturers in the early experience with V loans, to be assured of adequate working capital in case of the cancellation of all contracts made it

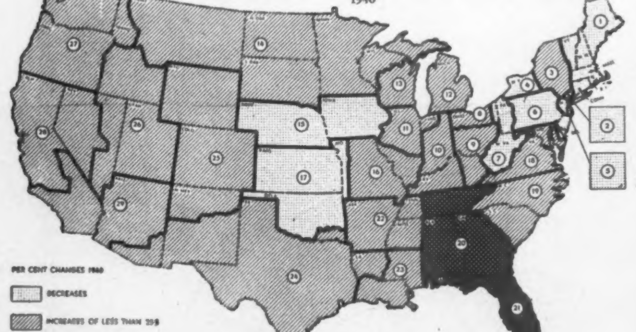
(Continued on page 28)

PENNSYLVANIA RAILROAD YARD SCENE—SOZIO PHOTOGRAPH FROM GENDREAU

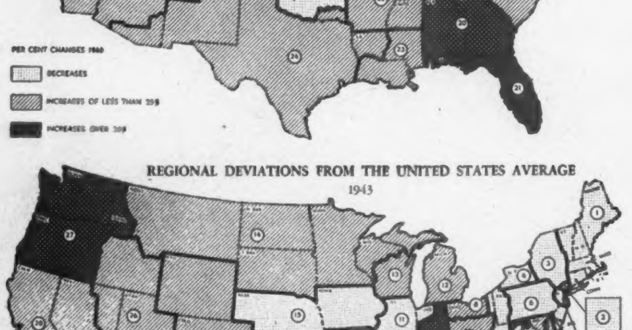
Dun's Review Trade Barometers;
Regional Increases, 1939-1943



REGIONAL DEVIATIONS FROM THE UNITED STATES AVERAGE
1940



REGIONAL DEVIATIONS FROM THE UNITED STATES AVERAGE
1943



REGIONAL EFFECTS OF THE WAR ON CONSUMER BUYING

L. D. H. WELD
Director of Research
McCann-Erickson, Inc.

Among the effects of the war on American business are marked regional shifts in the flow of goods and services into consumers' hands. This is an appropriate time to examine these changes. Dun's Review's Regional Trade Barometers measure these shifts. Although these barometers are being revised, and new barometers will be issued within a month or two, those that have been appearing monthly since 1936 will not be radically changed. They furnish a good measure of changes due to the impact of war. The United States Department of Commerce has recently used them in "Regional Shifts in Population, Production, and Markets 1939-43," to measure "Trends in Consumer Buying Power by Trading Areas, 1939-42" which will be referred to below.

It is not only worth while to examine these barometers today, but they will be watched with doubled interest in the future by those progressive concerns which are doing post-war planning. It will also be of the highest importance to follow them closely when the war is over, because there will undoubtedly be many regional changes that will have to be taken into account in determining the number and distribution of salesmen, the setting of sales quotas, the selection of advertising media, and so on.

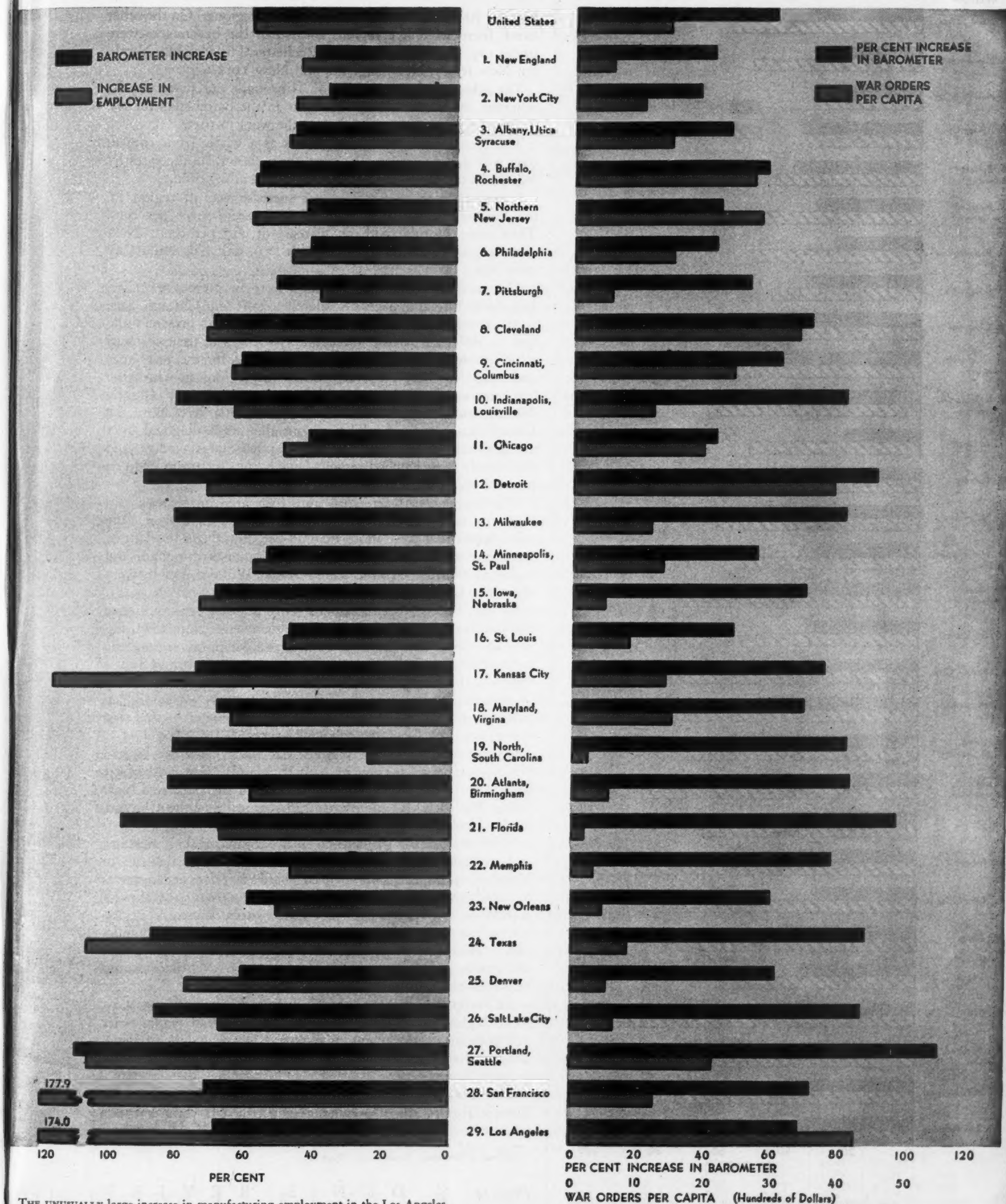
This is a period of booming business and heavy retail buying throughout the country—not only in war production areas but in regions not affected directly by war industries. Retail sales volume amounted to \$63,000,000,000 in 1943 (due largely to price increases) and will probably go still higher in 1944. In 1929, the biggest year before the war, they amounted to \$48,000,000,000 and during the depression dropped to \$25,000,000,000 in 1933. The farming areas are very prosperous with an agricultural income of \$20,000,000,000 estimated for this year, against an income of \$8,500,000,000 in 1934, ten years ago.

Naturally, some regions and localities are more prosperous than others, due mainly to the presence of war industries, the location of military encampments, agricultural prosperity, and so on. The principal reason for increased retail buying is that national income has increased phenomenally, and in every State in the Union. From 1939 to 1942, income payments increased 61.5 per cent for the United States as a whole, but in New England they increased only 53.3 per cent and in the Middle Atlantic States only 43.6 per cent, whereas in the South Atlantic States they increased 73.9 per cent and in the Pacific States, 80.9 per cent. As for individual States, the smallest increase was in New Hampshire (28 per cent), and the largest were in Arkansas, Nevada, and Washington (over 110 per cent).

As a result of these developments, the regional barometers have advanced to new highs. With 100 equal to the average of the five years 1928-1932, inclusive, the barometer for the United States as a whole stood at 142.9 in 1943. The barometers of three regions in 1943 were well over 200. These were the

MANUFACTURING EMPLOYMENT AND DUN'S REVIEW TRADE BAROMETERS; REGIONAL INCREASES, 1939-1943

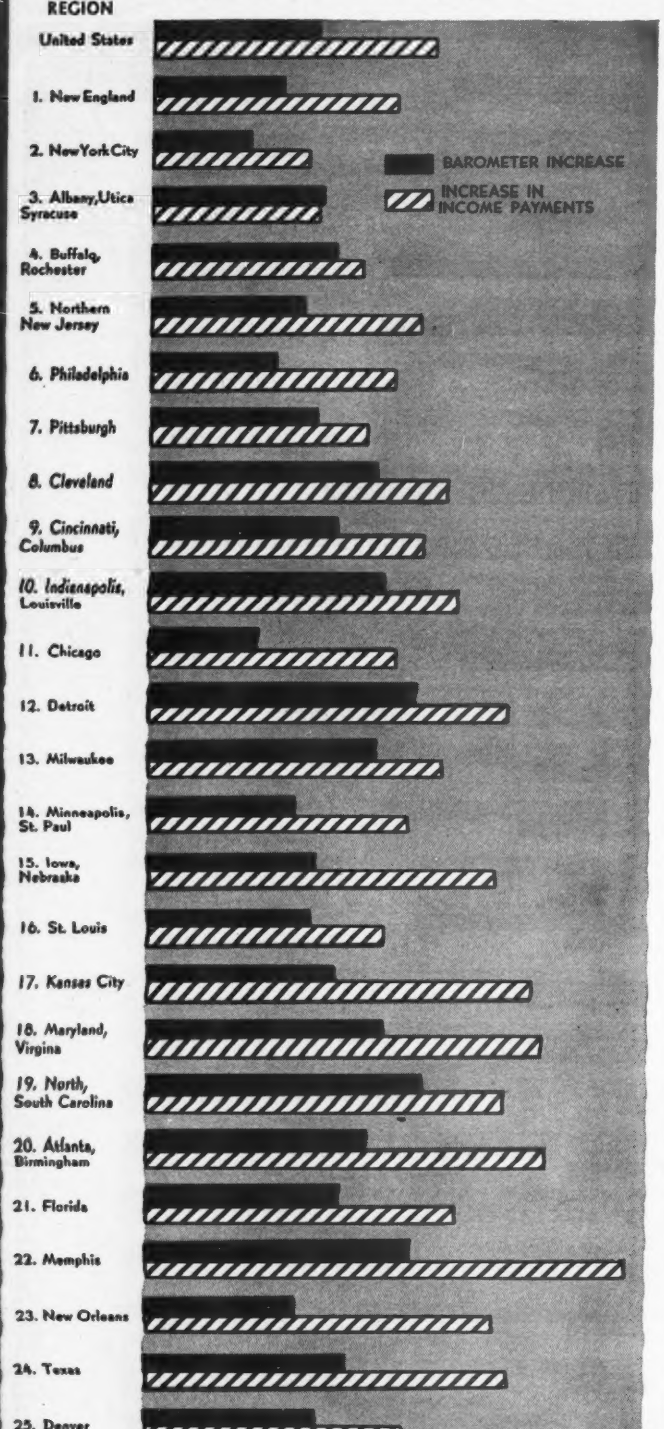
WAR ORDERS PER CAPITA AND DUN'S REVIEW TRADE BAROMETERS; REGIONAL INCREASES, 1939-1943



THE UNUSUALLY large increase in manufacturing employment in the Los Angeles, San Francisco, and Kansas City regions reflects the intensity of the war industrialization which has drawn labor from the surrounding areas. In a comparison for 1942, the increase in manufacturing exceeds the increase in the barometers in almost all regions. The employment figures used are annual averages from the monthly manufacturing employment data of the U. S. Bureau of Labor Statistics.

WAR ORDERS per capita are WPB's cumulative supply and facility contracts, from June 1940 through January 1944, divided by the region's population. The population data used are the U. S. Bureau of the Census estimates of civilian population on November 1, 1943.

Income Payments and Trade Barometers; Regional Increases, 1939-1942



This correlation was closer in pre-war years than it is now; even then there were occasional significant differences between the region in which income was received and that in which it was spent. During the war years, increased savings and Government bond purchases have taken an increasingly larger share of individual incomes. The data on increases in income payments are from the estimates of the U. S. Bureau of Foreign and Domestic Commerce.

Florida, Atlanta-Birmingham, and Texas regions. On the other hand, there were five regions for which the barometers were under 125. These were: Buffalo-Rochester, Philadelphia, Northern New Jersey, New England, and New York City.

The effect of the war situation is brought out more clearly, however, by examining the increases in the barometers for the different regions from 1939 (before the war) to 1943.

The increase for the United States as a whole from 1939 to 1943 was 59.5 per cent. The first chart shows the increases by regions from 1939 to 1943 arranged in descending order.

It will be seen that the largest increase was in region 27, the Portland-Seattle area, with an increase of 109.6 per cent. Then came Florida, with an increase of 96.7 per cent. Next came Detroit with 90.7, Texas with 87.6, and Salt Lake City with 86.2.

The smallest barometer increases were in New York City, 37.4; New England, 41.2; Philadelphia, 42.1; and Chicago, 42.4.

An interesting quick picture of the effect of the present situation on different parts of the country is found in the two maps which show the 29 Trade Barometer regions for the years 1940 and 1943. In these maps are shown the regions in which the barometers were below the United States average (lightly dotted) and the regions in which barometers were above the United States average. The regions that have diagonal lines are from 0 to 25 per cent above the United States average, and the heavily cross hatched regions have barometers more than 25 per cent above the United States average.

The changes between 1940 and 1943 are conspicuous. In 1940, for example, the first map shows that there were only two regions that were more than 25 per cent above the United States average. These are region 20 Atlanta-Birmingham and region 21 Florida. All the Southern and Western regions were above the United States average.

By 1943 the number of regions more than 25 per cent above the country's average had increased to seven. Note the addition of North and South Carolina, the Memphis region, the Indianapolis-Louisville region, Texas, and the Portland-Seattle region to this group. The Salt Lake City region figures exactly 25 per cent. Activity in the city of Detroit was not enough to pull region into this class, although the barometer in this area was 19 per cent above the country's average.

On the other hand, the regions that were below the United States average in 1943 were New England, New York City, both of the upper New York State regions, the Northern New Jersey, Philadelphia, and Pittsburgh regions, and the Chicago, the St. Louis, and the Iowa-Nebraska regions.

When increases in the barometers are compared with increases and decreases in civilian population from April 1, 1940, to March 1, 1943, there is but little correlation. There are instances in which the barometers have moved up substantially though population has decreased. In other words, increases in the barometers are not necessarily due to in-migrations of population. The regions are sufficiently large so that population changes in individual cities do not affect the level of consumer buying for the entire region.

As Philip M. Hauser of the U. S. Bureau of the Census says, "The highly concentrated character of industrial war activity and population movements is obscured in an analysis of population shifts for such broad areas as regions, geographic divisions, or even States."[1]

The most notable increases in population occurred in the Detroit region, the Cleveland region, the Maryland-Virginia

(Continued on page 22)

[1] *Journal of Marketing*, January 1944. Page 239.

THE TREND OF BUSINESS

SUMMARY: Industrial production continues at a high level, although divergencies from the upward tendency are numerous. Backlogs of orders are sustained at a high point. Manufacturing employment has been declining at an increasing rate since the beginning of 1944. Sales of soft goods boost retail activity. Stock averages attained new 1944 highs.

INDUSTRIAL activity continued to hold at a comparatively high level again in May and the early part of June, notwithstanding occasional diverse factors. Generally production figures were above the preceding year's high levels and approximately 50 per cent above May 1941. Some manufacturers have reported a slackening of orders, but productive facilities have been quickly turned to stepping up output of other war products. Backlogs of orders continue on a generally high plane.

Although manufacturing expansion has tapered off during recent months, the high war production program still calls for a large monthly output and production is behind schedule on some important war goods. War business accounts for about 65 to 70 per cent of total production. Industrial activity in the Southern and Pacific Coast States continues to respond most favorably to increased war needs. Manufacturing volume in some sections of the Middle West and East North Central areas is still expanding.

The minor upward and downward movements in the high production level since the peak at the end of last year result largely from slight variations in the output of metal and metal products, machinery, and transportation equipment. Production in these industrial groups in May, according to the seasonally-adjusted index of industrial activity (1935-1939 = 100) prepared by the Federal Reserve Board, while declining from earlier record levels, is still slightly above the corresponding period of last year and well above May 1941. Output of metal and metal products rose about 30 per cent over the 1941 figure, machinery was more than double what it was three years ago, and transportation equipment tripled. While durable goods production fell slightly in recent months, it was about 2 per cent above a year ago in May and almost double what it was in the Spring of 1941.

The output of non-durable goods has remained generally unchanged in recent months; it has risen 23 per cent over the early 1941 period. Production of war products in this group, such as chemicals, rubber, petroleum, and some food products, have made the most significant increases since the beginning of the war.

The increased war tempo has boosted further the needs for steel and copper for shell casings, landing craft, aircraft, and other military equipment. Steel output in May was the second largest this year at 7,680,472 tons, an increase of 111,942 tons over the previous month and 130,781 tons above May last year. Copper shipments attained a new high at 168,764 tons in May, a gain of 12,887 tons over April, while stockpiles decreased 1,308 tons during the month. The number of planes produced in May totalled about 8,902, or 2 per cent above schedule and about 559 planes above the slight decline in the previous month. In May 155 new ships were delivered, lifting the year's total to date to 719 vessels. Overall munitions output is running approximately 13 per cent above the 1943 level, reports WPB.

Employment—The condition of the manpower supply remains a major factor in important changes in industrial and business activity. Generally the labor situation continues tight. A large part of the month-to-month drop in manufacturing employment in May and early June was attributed to the completion of some phases of war jobs and to the rise in seasonal agricultural employment. Although agricultural employment has continued to average below a year ago for some time, it increased by 1,216,000 in May, a larger gain than usual and above that of last year. The number of female wage earners on farms increased over last year.

Manufacturing employment has been declining at an increasing rate since the beginning of this year, well over 100,000 persons a month. The decrease in May carried non-agricultural employment to the lowest point since May 1942.

Total civilian employment in May increased to 51,960,000, a gain of 670,000 over the previous month but 670,000 fewer workers than May 1943. Total unemployment

Industrial Production

Seasonally Adjusted Index; 1935-1939 = 100; Federal Reserve Board

	1941	1942	1943	1944
January	143	181	227	243
February	147	183	232	244
March	152	186	235	242
April	149	[illegible]	237	239
May	160	191	238	237
June	164	193	236	
July	[illegible]	197	240	
August	167	204	242	
September	169	208	245	
October	172	215	247	
November	174	220	247	
December	176	223	241	

Employment

Millions of Persons; U. S. Bureau of Census

	1941	1942	1943	1944
January	45.6	49.1	51.4	50.4
February	45.8	49.6	51.2	50.3
March	46.0	50.2	51.2	50.5
April	47.3	51.1	51.6	51.3
May	48.8	[illegible]	[illegible]	52.0
June	[illegible]	53.7	54.0	
July	51.3	54.3	54.8	
August	51.6	54.4	54.4	
September	50.8	52.9	53.0	
October	50.6	53.2	52.2	
November	50.4	52.6	51.7	
December	50.4	52.2	51.0	

Business Inventories

Billions of Dollars; U. S. Department of Commerce

	1941	1942	1943	1944
January	21.49	[illegible]	27.88	27.82
February	21.64	27.78	[illegible]	27.99
March	22.14	28.32	27.63	28.04
April	22.68	28.82	27.67	27.80
May	[illegible]	29.15	27.68	27 *
June	23.46	29.37	27.41	
July	23.99	29.23	27.53	
August	24.44	29.10	28.09	
September	25.06	29.03	28.41	
October	24.92	28.85	28.54	
November	26.73	28.73	28.71	
December	27.08	28.03	27.70	

Retail Sales

Seasonally Adjusted Index; 1935-1939 = 100; U. S. Dept. of Com.

	1941	1942	1943	1944
January	133.1	153.2	159.2	177.8
February	137.1	148.3	170.4	176.6
March	133.9	147.6	[illegible]	178.1
April	[illegible]	[illegible]	159.2	171 *
May	[illegible]	143.4	155.3	167.1
June	144.4	141.8	163.0	167 *
July	149.1	147.6	162.5	
August	155.0	150.3	163.7	
September	147.4	150.9	162.7	
October	141.6	154.3	167.3	
November	149.0	158.2	175.5	
December	152.1	153.9	171.1	

Cost of Living

Index; 1935-1939 = 100; U. S. Bureau of Labor Statistics

	1941	1942	1943	1944
January	100.8	112.0	120.7	124.2
February	100.8	112.9	121.0	123.8
March	101.2	114.3	122.8	123.8
April	102.2	115.1	124.1	124.5
May	102.9	116.0	[illegible]	125. *
June	104.6	116.4	124.8	
July	[illegible]	117.0	123.9	
August	106.2	117.5	123.4	
September	108.1	117.8	123.9	
October	109.3	119.0	124.4	
November	110.2	119.8	124.2	
December	110.5	120.4	124.4	

Wholesale Commodity Prices

Index; 1926 = 100; U. S. Bureau of Labor Statistics

	1941	1942	1943	1944
January	80.8	96.0	101.9	103.0
February	80.6	96.7	102.5	103.6
March	81.5	97.6	103.4	103.8
April	83.2	98.7	[illegible]	103.9
May	84.9	[illegible]	104.1	104.0 *
June	87.1	98.6	103.8	
July	[illegible]	98.7	103.2	
August	90.3	99.2	103.1	
September	91.8	99.6	103.1	
October	92.4	100.0	103.0	
November	92.5	100.3	102.9	
December	93.6	101.0	103.2	

Industrial Stock Prices

Monthly Average of Daily Index; Dow-Jones

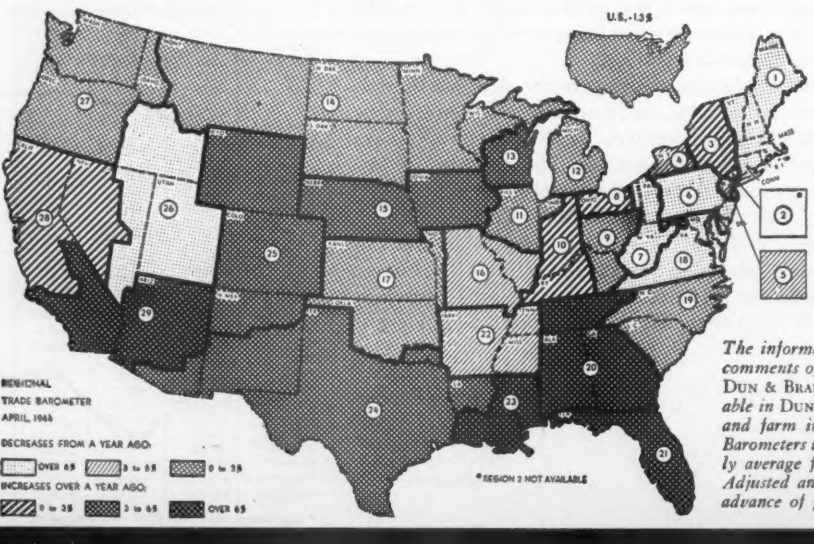
	1941	1942	1943	1944
January	130.17	111.11	121.52	137.74
February	121.68	107.28	127.40	135.97
March	122.52	101.62	131.15	139.07
April	119.10	97.79	[illegible]	137.19
May	[illegible]	98.42	138.60	139.22
June	[illegible]	103.75	141.25	
July	127.57	[illegible]	142.90	
August	126.67	[illegible]	136.34	
September	127.35	107.41	138.90	
October	121.18	113.51	138.25	
November	116.91	115.31	132.66	
December	110.67	117.16	134.57	

* Approximation; figure from quoted source not available.

REGIONAL TRADE REPORTS

Barometers compiled under supervision of Dr. L. D. H. Weld

Apr. 1944	Change from Mar. '44 %	Change from Apr. '43 %	HIGHLIGHTS OF TRADE ACTIVITY
UNITED STATES			
139.8	−11.0	− 1.3	First year-to-year drop since July 1942; barometer at level lowest since July 1943. Twelve regions recorded slight increases.
1. NEW ENGLAND			
110.5	− 6.5	− 9.8	*Moderate employment decreases from 1943* in Worcester, Lowell, New Haven, Providence, Boston. Maple sugar season good; output above 1943.
2. NEW YORK CITY			
Index is not available.			Retail employment and payrolls rose seasonally; wholesale statistics off. *Manufacturing employment* and payrolls below last year, 4 and 12% respectively. Hotel sales 15% above a year ago.
3. ALBANY, UTICA, SYRACUSE			
126.3	−14.5	+ 1.0	Increase in milk production less than seasonal due to poor pasturage *conditions. Employment and payrolls over 1943* in Binghamton–Endicott–Johnson City area; other districts showed decreases.
4. BUFFALO, ROCHESTER			
114.2	−16.2	− 3.5	For third month, barometer monthly and yearly comparisons below average. *Rochester employment steady with 1943, payrolls up 3%.* Boston flour milling activity about 25% above last year.
5. NORTHERN NEW JERSEY			
111.8	−13.2	− 4.1	Payrolls remained high although employment has dipped below 1943 in *Elizabeth, Newark, and Jersey City. All market gardening crops* have made good progress with weather conditions favorable.
6. PHILADELPHIA			
116.6	−11.1	− 7.1	Since April 1943, yearly barometer comparisons below average. Farm *prospects good. Employment slightly over 1943 in principal cities.*
7. PITTSBURGH			
129.2	− 9.6	−10.2	Largest yearly barometer drop recorded. Expansion of Huntington's industrial facilities continues. West Virginia payrolls 6% over 1943.
8. CLEVELAND			
145.9	− 4.6	+ 0.3	Winter wheat production estimated well over 1943; *conditions of other* crops good. Downward drift of employment in area accelerated.
9. CINCINNATI, COLUMBUS			
157.7	+ 3.1	− 2.1	*Barometer monthly increase largest present.* Dayton, Columbus, and Cincinnati employment slightly below 1943, payrolls about 6% higher. High tobacco prices continue to boost farm income in area.
10. INDIANAPOLIS, LOUISVILLE			
189.4	− 3.7	+ 2.4	*Indiana business activity dropped* to lowest level since last December. Employment remained moderately over 1943. Indiana farm prices about 2% below 1943, the first year-to-year decrease since the war began.
11. CHICAGO			
123.5	−16.3	− 1.9	*Employment and payrolls declined* for fourth consecutive month, now even with 1943. Belleville and Bloomington only cities with gains.
12. DETROIT			
163.1	−11.2	− 1.3	Barometer changes follow closely country averages. Employment and payrolls continued *fractional decreases*; now about even with 1943.
13. MILWAUKEE			
175.3	− 8.9	+ 4.4	Milwaukee industrial employment above 1943. Lumber industry reduced employment and payrolls in the month, now about same as last year.
14. MINNEAPOLIS, ST. PAUL			
145.9	− 8.1	− 2.1	Lack of rain throughout area hampers crop prospects. War work continues at high rate, levelling off in some lines. Over-all picture shows a labor surplus in area.
15. IOWA, NEBRASKA			
150.1	− 6.7	+ 3.2	Crops off to poor start but now making excellent progress, especially corn. Des Moines employment continues downward, now slightly below last year; Lincoln continues to report gains.
16. ST. LOUIS			
126.7	− 3.2	− 3.1	Supplies of feed grains still inadequate to meet heavy demand despite good pasturage. Employment levelling off, below last year.
17. KANSAS CITY			
156.3	− 6.5	− 0.3	Prospects *for* wheat and cotton excellent. Industrial employment increases over last year have narrowed; some sections report *declines.*
18. MARYLAND, VIRGINIA			
171.0	− 9.0	− 7.3	Labor shortage still acute in most sections. Farm labor supply in Richmond lowest in many years. Maryland employment and payrolls slightly below last year. Poor weather delayed and damaged many crops.
19. NORTH, SOUTH CAROLINA			
182.8	− 7.8	− 1.0	South Carolina textile production off about 12% from 1943. North Carolina Winter wheat crop reported to be its second largest. Labor shortage still acute in farm and manufacturing activities.
20. ATLANTA, BIRMINGHAM			
222.9	− 4.1	+10.8	Inclement weather injured many crops, especially peaches in Georgia and Alabama. Farm receipts running well over 1943. Labor shortage in Atlanta; Chattanooga and Nashville report labor surplus.
21. FLORIDA			
251.0	+ 2.5	+10.8	Barometer monthly and yearly comparisons among the best recorded. Increase in total orange production about 18% over 1943. Labor shortage still prevalent despite the off-tourist season.
22. MEMPHIS			
176.6	−10.6	− 3.5	Excessive moisture delayed most crops. Arkansas employment and payrolls down from last month.
23. NEW ORLEANS			
164.4	−13.3	+ 7.2	Oil output about 8% over 1943; new drilling brings influx of new workers. New Orleans employment about 14% over 1943, higher in Opelousas.
24. TEXAS			
217.6	− 1.4	+ 4.5	Cotton planted slightly less than last year. Employment above 1943 in Dallas, Fort Worth, San Antonio; off in Houston, Wichita Falls.
25. DENVER			
159.4	−10.4	+ 3.4	Yearly barometer comparison below average for ninth month; monthly increase excellent. Denver employment off about 33% from last year.
26. SALT LAKE CITY			
159.3	−11.0	− 7.7	Crop acreage somewhat over 1943. Salt Lake City employment about 60% below 1943 due to recent closing of small arms plant. Labor still needed in Ogden area and in coal mines of Carbon County.
27. PORTLAND, SEATTLE			
184.0	+ 0.9	− 1.2	Employment still high in area, further plant construction under way in Eugene area. Prospects of the fishing industry above 1943. Lumber production over last year due to favorable logging conditions.
28. SAN FRANCISCO			
161.6	− 1.3	+ 1.6	San Francisco employment dipped to about 6% below 1943, payrolls remained slightly above. Late rains and heavy hail storms damaged deciduous fruits in some sections.
29. LOS ANGELES			
162.9	+ 0.1	+ 6.8	For over a year, barometer yearly comparisons have been better than average. Orange crop about 39% over 1943; lemon output off 14%. Los Angeles employment about 1% below 1943, payrolls 6% above.



The information on regional trade activity is based upon comments of business men, gathered and weighed by local Dun & Bradstreet *offices. More detailed data are available in* Dun's Statistical Review. *Payroll, employment, and farm income figures are from Government sources. Barometers used are adjusted for seasonal variation; monthly average for the years 1928-1932 inclusive equals 100. Adjusted and unadjusted barometers may be obtained in advance of publication by arrangements with the editors.*

from April to May turned upward to 880,000 from 770,000, the lowest level recorded since 1940 (U. S. Bureau of Census). Unemployment among women accounted for the rise.

Income—While manufacturing payrolls have declined every month since the peak last November, they are still about 3 per cent above last year's level and more than double what they were in the Spring of 1941. Cash income from farm marketings totalling $1,404,000,000 dropped off 2 per cent during April but was 6 per cent above the corresponding period of last year. Farm receipts in the West North Central Region have been gaining most appreciably, while in the North Atlantic States they have declined.

Income payments to individuals declined seasonally to $12,489,000,000 in April. This monthly level was 3 per cent below a month earlier but 10 per cent above April 1943. The month-to-month decrease reflects the usual March to April drop in dividend and interest disbursements. Consumer expenditures for goods has increased about 15 per cent above a year ago.

Trade—Retail activity in May and early June was sustained at a high point because of the continued high rate of spending power and the warmer weather and pre-vacation buying of seasonal apparel and accessories which spurred consumer buying. May business was approximately 10 to 15 per cent above the corresponding period of last year. Sales of soft goods accounted for the over-all increase, although there has been some modest rise in the dollar volume of some durable goods. Apparel stores reported the largest gains in receipts. There was an increased interest in furniture lines. Liquor and jewelry sales were generally higher than any month this year except for March.

Stores in the larger size groups reported increased activity, while those in the smaller classification disclosed mild gains. Chain store sales volume in May rose about 12 per cent over a year ago, with the apparel and food groups accounting for a large part of the rise with gains of 27 and 14 per cent respectively.

Sales in all sections of the country gained in May and the first part of June over the previous year, with the

largest increases for the South, Southwest, and Pacific Coast. Higher farm income has boosted business in some of the North Central States.

Prices—Continuing the tendency of the past few months, the index of wholesale prices (1926 = 100), prepared by the U. S. Bureau of Labor Statistics, changed fractionally in May. The commodity index was estimated at 104.0 per cent of the 1926 average; an infinitesimal monthly rise and approximately the same as a year earlier. Higher prices of some agricultural products accounted for the increase.

Retail prices in May were largely unchanged for the fourth consecutive month; indexes were only fractionally above May 1943. Prices in the women's apparel group were responsible for the yearly rise.

Living costs were held to slight advances in May, increasing to an estimated 125 as compared with the 1935-1939 base of 100 of the U. S. Bureau of Labor Statistics index. The rise in the cost of clothing and food accounted for the gain.

Finance—In mid-June industrial stock prices advanced to the best level since May 1943; volume rose considerably.

Currency in circulation and bank deposits both continue to increase—the gains are about 30 and 14 per cent respectively over a year. The ratio of reserves to deposits and F.R. note liabilities has dropped from 62.3 per cent in January and 76.4 per cent in May 1943 to 55.5 per cent on June 21, 1944.

Failures—Continuing the slight uptrend started last month, business failures in May numbered 148, a little over half those in the same month of 1943. For the second month this year liabilities of concerns failing exceeded those of the comparable period a year ago.

The low failure rate continued throughout the country; only four States reported as many as ten failures in May. The number of failures of small enterprises—mostly retailers—continued more than 50 per cent below the same month of last year.

The number of large failures, with liabilities over $25,000, increased over the previous May. Machinery manufacturing and miscellaneous personal services were the only lines in which more concerns failed in the first five months of 1944 than in the comparable period of last year.

SIGNIFICANT INDICATORS

COMPILED BY THE PUBLISHERS OF "DUN'S REVIEW"

More detailed figures appear in DUN'S STATISTICAL REVIEW.

The Failure Record

	May 1944	Apr. 1944	May 1943	Per Cent Change
NUMBER OF FAILURES....	148	131	281	−47
NUMBER BY SIZE OF DEBT				
Under $5,000..........	64	53	146	−56
$5,000–$25,000	60	60	119	−50
$25,000–$100,000	20	14	13	+54
$100,000 and over.....	4	4	3	+33
NUMBER BY INDUSTRY GROUPS				
Manufacturing	34	37	48	−29
Wholesale Trade......	11	9	23	−52
Retail Trade.........	63	56	156	−60
Construction	26	20	35	−26
Commercial Service...	14	9	19	−26
	(Liabilities in thousands)			
CURRENT LIABILITIES.....	$2,697	$3,524	$2,550	+ 6
TOTAL LIABILITIES.......	$2,697	$3,757	$2,625	+ 3

Failures by Divisions of Industry

(Current liabilities in thousands of dollars)	Number Jan.-May 1944	Number Jan.-May 1943	Liabilities Jan.-May 1944	Liabilities Jan.-May 1943
MINING, MANUFACTURING....	162	334	7,695	9,666
Mining—Coal, Oil, Misc....	5	11	1,119	425
Food and Kindred Products.	18	46	974	1,115
Textile Products, Apparel...	12	59	311	719
Lumber, Lumber Products..	29	42	2,145	858
Paper, Printing, Publishing.	13	55	189	1,157
Chemicals, Allied Products..	7	17	287	216
Leather, Leather Products...	2	5	21	169
Stone, Clay, Glass Products.	5	15	427	270
Iron, Steel, and Products...	10	11	227	379
Machinery	36	27	1,113	3,347
Transportation Equipment..	6	6	568	348
Miscellaneous	19	40	314	663
WHOLESALE TRADE..........	48	147	683	1,610
Food and Farm Products....	21	52	218	489
Apparel	2	6	29	33
Dry Goods.................	..	4	..	40
Lumber, Bldg. Mats., Hdwr.	9	17	227	334
Chemicals and Drugs.......	1	4	11	22
Motor Vehicles, Equipment.	..	4	..	43
Miscellaneous	15	60	198	649
RETAIL TRADE..............	261	1,105	2,239	6,909
Food and Liquor...........	56	315	875	1,397
General Merchandise........	7	43	43	244
Apparel and Accessories....	28	102	160	718
Furniture, Furnishings.....	15	51	116	427
Lumber, Bldg. Mats., Hdwr.	13	57	159	382
Automotive Group..........	17	67	113	410
Eating, Drinking Places....	85	297	556	2,232
Drug Stores...............	13	80	76	527
Miscellaneous	27	93	141	572
CONSTRUCTION	89	221	1,074	2,844
General Bldg. Contractors...	28	85	517	1,639
Building Sub-contractors....	60	132	552	1,052
Other Contractors..........	1	4	5	153
COMMERCIAL SERVICE........	67	126	806	2,004
Highway Transportation....	21	25	476	660
Misc. Public Services.......	..	5	..	96
Hotels	..	7	..	158
Cleaning, Dyeing, Repairs..	5	17	30	116
Laundries	5	28	101	737
Undertakers	4	8	20	97
Other Personal Services.....	17	13	85	46
Business, Repair Service....	15	23	94	94

Further Information

DUE TO war-time restriction on use of paper and the desire to conserve as much space as possible, the features appearing on this page are necessarily given in very abbreviated form.

MORE DETAILED data on the various subjects are published each month in DUN'S STATISTICAL REVIEW. For example, building permit values for each of the 215 cities are given, with a breakdown by geographical regions. (A ten-year record of building permit values for 215 cities is available upon request.) With the bank clearing data there is also comparative data for the three preceding years, for the preceding month, and cumulative data for the year.

FAILURE STATISTICS are presented by States, by large cities, by Federal Reserve Districts, by industries and trades, and by size of liabilities. Canadian failure statistics by Provinces are included.

THE WHOLESALE price indexes are presented for a much longer period of time. There is also a summarized presentation of other wholesale price index numbers, both United States and foreign. . . . The annual subscription to DUN'S STATISTICAL REVIEW is $1 a year.

Wholesale Food Price Index

The index is the sum of the wholesale price per pound of 31 commodities in general use:

1944	1943	1944
June 20..$4.01	June 22..$4.04	High $4.04 Mar. 21
June 13.. 4.01	June 15.. 4.04	Low 3.98 May 23
June 6.. 4.00	June 8.. 4.05	1943
May 30.. 4.00	June 1.. 4.11	High $4.12 May 18
May 23.. 3.98	May 25.. 4.11	Low 4.00 Dec. 21

Daily Wholesale Price Index

The index is prepared from spot closing prices of 30 basic commodities. (1930-1932 = 100.)

	June 1944	May 1944	Apr. 1944	Mar. 1944	Feb. 1944
1....	172.11	171.82	172.86	172.20	171.77
2....	172.44	171.77	†	172.29	171.85
3....	172.39	171.70	172.74	172.09	171.94
4....	†	171.90	172.88	172.23	171.85
5....	172.45	171.82	172.90	†	171.78
6....	172.46	171.80	173.01	172.25	† ....
7....	172.40	†	*	172.49	171.82
8....	172.36	171.65	173.01	172.58	171.87
9....	172.54	171.76	†	172.63	171.93
10....	172.61	171.89	173.10	172.70	171.97
11....	†	172.27	173.06	172.74	172.02
12....	172.67	171.62	173.06	†	* ....
13....	172.53	171.61	172.93	172.91	† ....
14....	172.59	†	172.79	172.64	172.12
15....	172.72	171.47	172.76	172.85	172.07
16....	172.40	171.63	†	172.97	172.22
17....	172.40	171.63	172.54	172.90	172.28
18....	†	171.72	172.41	172.92	172.36
19....	172.56	171.69	172.50	†	172.42
20....	172.12	171.64	172.49	173.12	† ....
21....	172.06	†	172.25	173.05	172.37
22....	172.27	171.55	172.22	172.96	* ....
23....	172.13	171.53	†	173.07	172.39
24....	171.86	171.64	172.19	173.11	172.49
25....	†	171.65	172.28	173.08	172.48
26....	172.00	171.61	172.24	†	172.41
27....	172.52	171.59	172.17	173.17	† ....
28....	......	†	172.02	173.06	172.27
29....	......	171.77	172.02	173.03	172.08
30....	......	*	†	173.11	
31....		172.01		172.90	

† Sunday. * Market closed.

Building Permit Values—215 Cities

Geographical Divisions:	May 1944	May 1943	% Change
New England.......	$2,076,907	$2,258,959	− 8.1
Middle Atlantic.....	16,307,927	8,875,605	+ 83.7
South Atlantic......	3,876,106	4,091,689	− 5.3
East Central........	11,810,063	11,901,446	− 0.8
South Central.......	6,923,083	5,616,544	+ 23.3
West Central.......	2,725,389	2,492,252	+ 9.4
Mountain	1,803,343	1,281,417	+ 40.7
Pacific	9,903,681	12,379,172	− 20.0
Total U. S..........	$55,426,499	$48,897,084	+ 13.4
New York City......	$12,077,169	$2,602,172	+364.1
Outside N. Y. C....	$43,349,330	$46,294,912	− 6.4

Bank Clearings—Individual Cities

(Thousands of dollars)

	May 1944	May 1943	% Change
Boston	1,455,204	1,451,844	+ 0.2
Philadelphia	2,695,000	2,758,000	− 2.3
Buffalo	289,407	237,209	+22.0
Pittsburgh	1,104,231	999,539	+10.5
Cleveland	913,662	864,030	+ 5.7
Cincinnati	442,958	434,953	+ 1.8
Baltimore	637,497	601,627	+ 6.0
Richmond	308,636	265,667	+16.2
Atlanta	627,500	523,600	+19.8
New Orleans.......	348,801	338,447	+ 3.1
Chicago	2,001,338	1,923,858	+ 4.0
Detroit	1,636,276	1,383,938	+18.2
St. Louis...........	799,269	710,859	+12.4
Louisville	283,732	279,290	+ 1.6
Minneapolis	525,805	517,436	+ 1.6
Kansas City........	786,794	765,777	+ 2.7
Omaha	285,814	299,078	− 4.4
Denver	233,461	209,548	+11.4
Dallas	466,690	421,753	+10.7
Houston	444,715	371,080	+19.8
San Francisco......	1,166,781	1,027,356	+13.6
Portland, Ore.......	300,759	324,926	+ 7.4
Seattle	358,547	377,035	− 4.9
Total 23 Cities.....	18,112,877	17,086,850	+ 6.0
New York..........	21,105,851	22,893,888	− 7.8
Total 24 Cities.....	39,218,728	39,980,738	− 1.9
Daily Average......	1,508,413	1,599,230	− 5.7

HERE *and* THERE

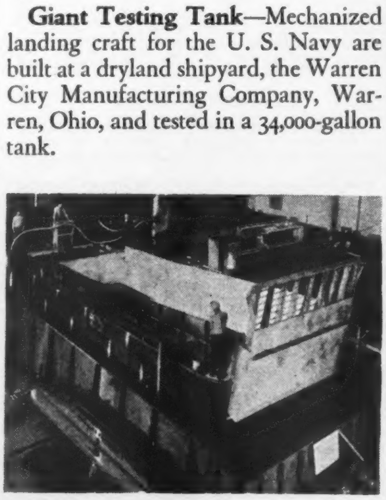
Heat Resistant Plastic—"Cerex," a new thermoplastic produced by Monsanto Chemical Company, will retain its form when exposed to the heat of boiling water. This has been a much sought for characteristic in thermoplastics as it permits sterilization. The problem is to develop a material that will repeatedly soften under heat for high speed molding and in use have good stability under heat. Cerex has a heat distortion point under load of 220 degrees Fahrenheit.

Dimensional stability is increased because no plasticizer is required in molding and because the water absorption is low, Monsanto reports. Five years of research has resulted in a product with high acid and alkali resistence and other properties generally good.

The output of Cerex now is being utilized in war work—in radar, radio, surgical instruments, aircraft instruments, and for other purposes.

Business Forms—A variety of forms now being used in Remington Rand administrative control systems by industrial and commercial firms in the Western Coast States are reproduced in a recent issue of *Systems,* a magazine published by Remington Rand, Inc. Controls included are materials, production, maintenance, photo records, tool, purchase, personnel administration, and customer history.

Giant Testing Tank—Mechanized landing craft for the U. S. Navy are built at a dryland shipyard, the Warren City Manufacturing Company, Warren, Ohio, and tested in a 34,000-gallon tank.



The LCM—3 lighters, 50-foot all welded barges for landing medium tanks, bulldozers, guns, trucks, and personnel, are constructed upside down on an assembly line and swung over for final construction and installation of the Diesel engines. Following a two-hour test in the tank the barges are loaded on their sides on flatcars and hauled to the point of embarkation.

During the tank test, which occurs near the assembly line, steel cables are attached to the 25-ton barges to prevent them from leaping out of the tank.

Expediting Termination—A booklet issued by Lyon Metal Products, Inc., Aurora, Ill., tells how this company organized for the task of handling war contract terminations promptly and how it presents termination charges to the Government or other customer. The forms used are reproduced.

The treasurer is in charge of termination procedure. Upon notice of termination, this procedure is initiated by the manager of the War Products Division. A cost accountant makes certain that all claims can be substantiated and checks each for completeness. The claim processor superintends inventory, earmarking of materials in process, and checks stoppage of production and tool cancellation.

The termination coordinator follows through to see that all procedures are expedited. A final complete check then is made by the termination committee, headed by the coordinator, and including the assistant treasurer, process engineer, and manager of the War Products Division.

Peacetime Packaging—Looking toward the field of post-war packaging, Celanese Celluloid Corporation has produced a film entitled "Proving Ground" which is being used as part of a series of round table meetings with packaging people.

The film stresses the importance of proper packaging of goods to be sent to the fighting fronts. Its purpose, however, is to show how war developed innovations, successful in meeting the rigors of global warfare, may be carried over into peacetime packaging.

As an example, one scene depicts the soldier's use of a small spirally-wound package containing an ampoule of iodine and equipped with a swab. This package can be broken with one hand, without the danger of broken glass or iodine stain, the implication being that the same idea may have various applications in the home medicine closet.

PREPARE FOR POST WAR PERIOD

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SIMON DAVIS, (B 2426), All types soft goods, hosiery, piece goods.
DENT & GOODWIN, (B 1446), Customs, clearing and shipping agents.
FASSETT & JOHNSON, LTD., 15 Bree St., Medical, toilet and foodstuffs.
W. J. HOPKINS & CO., PTY., LTD., 30 Adderley St., Haberdashery.
J. W. JAGGER & CO., PTY., LTD., 54-62 St. George's St., General merchandise.
LEWIS & CO., (B 2426), General agencies.
MANUFACTURERS DIRECT SUPPLIES, 92 Loop St., Household hardware, crockery, glassware, cutlery, brushware, dinnerware.
SAM NEWMAN, LIMITED, 30 Burg St., Hardware, sanitaryware, tools, electrical and household goods.
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L. RAPHAELY & SON, (B 447), Branches Johannesburg and Durban, Textiles, foodstuffs, industrial requirements.
ROWLAND, CHUTE & CO., LTD., 57A Long St., All plastic products, hospital, building and catering equipment.
SLADEN & ASHMAN, (B 2159), Toilet sundries, novelties for chemists and departmental stores.
SOLOMON J. & SON, (B 675), Hardware, soft goods, rough goods, machinery and groceries.
SONVIL PTY., LTD., 43 Strand St., Ladies' and men's hosiery and underwear.
WM. SPILHAUS & CO., LTD., (B 113), Machinery, household appliances, silverware.
STUTTAFORD & CO., LTD., Adderley St., Nylon products and home electrical appliances.
STYLEWEAR DISTRIBUTORS PTY., LTD., 40 Loop St., Ladies' frocks, coats, costumes, underwear, childen's wear, stockings.
TRU PRODUCTS PTY., LTD., (B 1285), Lingerie, hosiery, corsetry, gloves, cosmetic silk piece goods.

DURBAN, S. A.

ASHTON, PITT & CO., PTY., LTD., (B 1707), Electrical and general hardware.
BRITISH & CONTINENTAL AGENCIES, (B 854), Canned goods, bakers' machinery, paper, oils and fats, woolen and rayon waste.
CRANSTON & TURNER PTY., LTD., (B 2378), Textiles.
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CONSUMER BUYING

(Continued from page 14)

region, Florida, and in the four Western areas (the Salt-Lake City, Portland-Seattle, San Francisco, and Los Angeles regions). In all of these the trade barometers showed good increases except in the San Francisco and Los Angeles regions. The influx of population offers great post-war problems in these Western regions, especially as the principal war-time industries are shipbuilding and airplanes —industries that are not easily converted to peace-time activities.

The principal decreases in population took place in the following regions: New England, New York City, Albany and Syracuse, Pittsburgh, Cincinnati-Columbus, Minneapolis and St. Paul, Iowa-Nebraska, St. Louis, North and South Carolina, Memphis, and Denver. In general, the barometer increases were moderate in these areas (except in Cincinnati-Columbus, North and South Carolina, and Memphis where they were substantial).

Although there is little correlation between barometer increases and population shifts, it is clear that the number of people employed in manufacturing industries has had a great deal to do with barometer increases in most regions (see chart). In general, where manufacturing employment has increased, the barometers are high, and vice versa. Exceptions are in the Kansas City, San Francisco, and Los Angeles areas, where the barometer increases have not kept pace with the increases in manufacturing employment. (Revised barometers to be issued shortly will indicate greater gains in the barometers for the San Francisco and Los Angeles regions than those shown in the chart.)

It is also to be noted that there have been large barometer increases in a few regions in spite of small increases in manufacturing employment. This is especially true in the North and South Carolina and Memphis regions. It must be remembered in using this chart that agricultural conditions are a factor not taken into consideration here.

Although, as mentioned above, war orders are so highly localized that we would not expect them to have affected the barometers greatly, it is interesting to compare barometer increases with per capita war contracts for the various regions (see chart). The data on which this is based consist of cumula-

tive "war supply and facility contracts" through January 1944 and increases in barometers through 1943, continuing the computations in the Government bulletin referred to in the first paragraph of this article.

The war contracts are primary contracts, so they do not take into account the regional distribution of work subcontracted. Therefore, the war-order figures are rough.

In some regions where both war contracts and barometer increases are large, war business has undoubtedly been a factor in the barometer increases. This is especially true in the Buffalo-Rochester, Northern New Jersey, Cleveland, Cincinnati-Columbus, Detroit, and Portland-Seattle regions. In the Los Angeles region, heavy per capita war orders did not bring the barometer up to any great extent.

In many other regions the barometer increases have been great, although war orders have been low. This is true of the Iowa-Nebraska, North and South Carolina, Atlanta-Birmingham, Florida, Memphis, Texas, Denver, and Salt Lake City regions. Prosperous agricultural conditions due to heavy demand for farm products, have been largely responsible for barometer increases in many of these regions. Great activity in mining and in oil production has also contributed.

Barometers and Income

It is also interesting to compare the barometer increases with the increases in income payments to individuals. In the chart the increases are shown from 1939 to 1942, as reported in the Government bulletin referred to in the first paragraph of this article. Income payments are reported by States in this bulletin, and have had to be estimated for many of the 29 Trade Barometer regions that cut State lines.

Although income, of course, affects the amount of goods and services that people buy, it is not a good measure of trade conditions, because all income is not spent for commodities and services. This is especially important during these days, when people are buying Government bonds or saving parts of their income in other ways.

It will be seen from the chart, however, that there is a fair degree of correlation. In those regions where income payments showed the greatest rate of increase from 1939 to 1942, there were big increases in the barometers. For example, note that the increases in income payments were very high in the Portland-Seattle region and in the

Detroit area, the regions in which the barometer increases were especially high. It is also worth noting that in general income increased the most in the South and West. Florida does not rank among the very highest in this chart, because it shows barometer and income increases only to 1942.

In the main, the changes in barometers shown in this article have followed pre-war trends. But they have been accentuated by the war situation, especially in the South. The West has also enjoyed an accelerated improvement in business conditions.

And these trends will undoubtedly continue after the war, but at a slackened pace. Further industrialization as well as diversification of agriculture in the South will continue. Also the further growth of cities in these sections will be a factor. The principal problem is—How permanent will industrialization of the Far West prove to be?

In considering these regional changes, it must not be thought that the Northeastern part of the country is going backward. It accounts for a large proportion of the wealth, income, and buying power of the country. It has also been making substantial progress. It is simply that the South and West have been advancing more rapidly than the older and more stable Northeastern corner of the country.

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FINANCING

(Continued from page 11)

a practice to use their full Regulation V commitment continuously where they could meet all collateral requirements in the loan agreement. In the instance mentioned the full commitment would have been $500,000. That commitment would immediately be taken up, and the added interest cost on that portion of the loan in use but not actually needed, would be considered in the nature of an insurance cost, so that the full amount would be available in the immediate termination adjustment period.

In addition to these extraordinary advantages, loans under Regulation V have no restrictions against the comingling of funds (except in occasional weak contracts), characteristic of the typical arrangements under which prime contractors obtain "advances" from the various supply services of the War Department.

Early credits established under V loan agreements were often for a maximum dollar amount which was specifically stated, such as the General Motors commitment for $1,000,000,000. Alternative ceilings for a fixed definite amount, say $2,000,000, or a certain stipulated percentage (the percentage varied widely in different formulae) of "amounts due or to become due," were also used. Such a formula allowed great leeway in the amount of credit to be extended. It was used in cases where new businesses were being established and being new had few if any, receivables and little or no inventory.

Gradually the use of more specific alternative ceilings in place of "amounts due or to become due" became customary, such as the lesser of a specified dollar amount, $2,000,000, for example, or a certain percentage such as 90 per cent of receivables arising out of war activity plus 85 per cent of merchandise acquired for or in process of manufacturing war equipment, materials, and supplies. Such a borrowing formula when first used was applied only to uncancelled contracts, leaving a void and a problem in carrying receivables and inventory applying to cancelled contracts at termination.

In the establishment of credits against specified percentages of receivables and inventory, it was generally agreed that the borrower would provide his bank with monthly balance sheets. These balance sheets, when delivered, would

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June 2, 1944

Mr. A. E. Duncan
Chairman of the Board
Commercial Credit Company
Baltimore - 2 - Maryland

Dear Mr. Duncan -

Through the profitable use of your financing service for nearly three years, we have attained a position which has enabled us to permanently finance our Company by an underwriting of preferred stock and serial ten year unsecured notes. We, therefore, tender our check for $2,556,842.07 in settlement of our account with you.

Nearly three years ago you advanced $1,450,000 towards my purchase of C. D. Kenny Company, Baltimore, whose sales in 1941 were $17,000,000. About a year later you advanced some $3,850,000 to assist the purchase by Kenny of Sprague Warner and Company, Chicago, whose annual sales were about $12,000,000. Sales of both Divisions have since substantially increased.

We have just bought Western Grocer Company and Marshall Canning Company of Marshalltown, Iowa, which makes our Company one of the largest wholesale, canning and processing grocery concerns in the United States, with combined annual sales in excess of $50,000,000.

During our experience with you, of nearly three years, you have financed our Accounts Receivable totaling more than $82,000,000. We have always made a substantial profit and I am pleased to say that at no time have you injected yourselves into management or financial control of our business. The use of your financing service and the splendid cooperation and helpful assistance we have received from you and your Associates have been important contributing factors to our success. We shall always feel very grateful to you.

Our experience with you is concrete evidence that large concerns can very profitably use your financing service and maintain high credit standing. We wish you continued success.

Most sincerely yours,

SPRAGUE WARNER-KENNY CORPORATION

Nathan Cummings

President.

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be up to two months' old, that is a balance sheet dated June 1 would be received some time prior to August 1. The outstanding loan would then be decreased or increased depending upon the application of the borrowing formula to the monthly fluctuations in receivables and inventory. Simultaneously the borrower would certify that the amount of outstanding credit was within the formula.

Just prior to the creation of VT loans, the borrowing formula of many V loans were worded, so that in essence, they anticipated the formula of VT loans adapted to termination needs. Under this modified formula, the borrower could draw down stipulated percentages against receivables and merchandise on cancelled as well as on uncancelled contracts, and on amounts paid or about to be paid to subcontractors. A corporation, for example, might have two contracts and a commitment for a peak loan of $1,000,000 under such a V loan agreement. The corporation might be borrowing $600,000 when all contracts were cancelled. Under this modified formula, applying to cancelled as well as uncancelled contracts, the additional $400,000 could be borrowed after cancellation to reimburse working capital which would be frozen up to the stipulated percentages of receivables and inventory applying to the cancelled contracts.

Competitive Advantages

Some prime contractors and some subcontractors that had been in healthy financial shape and able to obtain adequate credit from their depository banks, could not obtain clearance from the Navy Department, or the U. S. Maritime Commission, (the War Department was more liberal) and from the Federal Reserve Bank as the fiscal agent of the Federal Government for a V loan. The dividing line between contractors that were in healthy shape and could not obtain clearance for a V loan because adequate credit was available from their depository banks, and those in somewhat similar financial condition that would obtain loans, was quite vague in practice.

One concern would be turned down for a V loan in one channel of bank negotiation and would obtain the loan through another channel. Moreover, there seems to have been a somewhat more liberal attitude taken by banking institutions in certain parts of the country after January 1943. Commercial banks and trust companies in Los Angeles, Kansas City, and Dallas, in par-

ticular, have been outstanding in their extension of V and VT loans.

A contractor that could not obtain a V loan because adequate credit was readily available from its own banking quarters, in case of cancellation was at a distinct disadvantage when compared with a competitor, in either a healthy or an extended financial condition, that had obtained such a loan. Under Section 6 of the guarantee agreement, in the event of cancellation of more than 25 per cent of the borrower's war contracts for the convenience of the Government, the maturity of a percentage of the loan corresponding exactly to the percentage of contracts cancelled would be suspended for a period ending ten days after the borrower shall have received full payment due under his contracts. During this period, the borrower would be fully relieved of any obligation for the payment of interest or principal on the portion of the loan suspended; the guarantor paying interest less the guarantee fee but not to exceed 2½ per cent in the aggregate.

At the same time, the contractor unable to obtain clearance because of his healthy financial condition, would need to pay interest, and his regular bank loan would mature irrespective of any delayed settlement on his cancelled contracts. Because this contractor was in healthy financial shape, he was, as a matter of everyday practical policy, penalized and at a distinct disadvantage, compared to the contractor that had obtained the V loan. The VT loan, in addition to other advantages, offered a solution to this very practical competitive problem.

VT Loans

During the Summer of 1943 terminations started to roll in sizable amounts and terrific pressure was exerted by corporations that had not been able to obtain the benefits of Section 6, as described above, primarily from the Navy Department because they had been in healthy financial condition. Many commercial bankers, with knowledge of this situation, advised their strong depositors to bring pressure by making applications for V loans. At the same time there developed a tendency among some contractors to reduce inventories to obtain cash for the purchase of tax notes so they would be in a liquid condition to meet heavy tax payments.

All this added up to the fact that an increasing number of contractors were becoming reluctant or were finding it difficult to accept additional war orders

without adequate protection in case of cancellation. Deliveries began to slow up, particularly to the War Department. Instead of slowing up, at this stage of the war, a speeding up in the production of many types of war products was essential.

The VT loan was created as a stopgap pending some kind of Congressional legislation which would solve these various correlated problems. So much time has passed in the consideration of this subject by Congressional committees that VT loans in the meantime have become a permanent banking technique for the duration to provide credit at termination both to prime contractors and subcontractors.

The announcement of the broadened bases for V loans by the Board of Governors of the Federal Reserve System, which became known as VT loans, was made on August 28, 1943. Up to this time, advances under V loans were made, in general, to provide working capital needs for war production. We have seen, however, how V loan agreements were gradually modified so that additional credit, within the framework of some loan formulae, could be made at termination. There still remained, however, the competitive disadvantage to the contractor who was not able to obtain clearance to secure a V loan, particularly from the Navy Department, because he was in easy financial condition.

Advantages of VT Loans

A VT loan is a V loan with the added attribute that it can be obtained by a contractor or subcontractor in easy financial condition and who desires the credit, not for production purposes, but to protect his cash position in the event of cancellation. In other words, the plan of VT loans was designed to assure prime contractors and subcontractors that their working capital invested in war production receivables and inventory would not be frozen at termination.

VT loans carry the guarantee of the War Department, or the Navy Department, just like V loans, and a Federal Reserve Bank acts as the fiscal agent of the Federal Government. While the U. S. Maritime Commission is also authorized to guarantee VT loans it has not been done so up to this writing. This basic contrast between V and VT loans is brought out in a "Statement of Policy" issued by the Office of Procurement and Material of the Navy Department to the Board of Governors of the Federal Reserve System:

"If the credit is designed to provide working capital for war production purposes, the contractor should apply for a V loan guarantee. If a substantial part of the credit is designed to free the borrower's working capital upon termination of its war contracts the application should be made for a VT loan guarantee, even though part of the credit is also to be available for war production.

"Thus a VT loan may have two aspects—the production or V aspect and the termination or T aspect—which are merged in a single guaranteed commitment for convenience only. A production loan is made not to free but to supplement the borrower's own working capital in order that its war contracts may be promptly and effectively performed. A commitment to make a termination loan is granted in order to give the borrower assurance that its own working capital, although fully utilized for war production, may be promptly freed upon termination of all or a part of its war contracts. The Navy Department will guarantee such commitments in order to allay fear of termination which might lead to a reluctance on the part of many manufacturers to maintain inventories and to make commitments necessary for the prompt and effective performance of war production contracts. . . . "

Loan Policies Vary

The policy of the U. S. Maritime Commission in making V loans has been somewhat more conservative than the Navy Department while the policy of the War Department in making V and VT loans has been somewhat more liberal. If a paragraph similar to the above quotation had been prepared by the War Department this liberality would probably be indicated by a change in emphasis to the effect that a production loan is made in order that war contracts may be promptly and effectively performed, but simultaneously and incidentally to free and to supplement the borrower's own working capital. The "Statement of Policy" of the Navy Department continues:

"Since the merger of V and T aspects is for convenience only, this merger is not regarded by the Navy as justifying a complete departure from its established policy with respect to production loans and advance payments. Under its policy with respect to V loans and advance payments the Navy has required (1) a statement from the bureaus having cognizance of the work performed by the borrower that there

is no other source conveniently available which would not require financial assistance from the Navy, as well as a statement with respect to the ability of the contractor to perform and the essentiality of the product, and (2) a showing by the contractor, supported by a cash flow statement, of the need for purposes of war production of a loan in the amount requested, to supplement (but not to replace) its own working capital.

"In considering the production aspect of a VT loan, the Navy Department will not insist upon the requirement that there be no other source conveniently available which would not require financial assistance from the Navy. However, the Navy Department will limit the amount borrowed against uncancelled contracts to the contractor's financial needs for war production purposes (*i.e.,* funds necessary to supplement, but not to replace, the borrower's working capital employed in war production). Production needs, under a VT as well as a V loan, are construed as including amounts necessary to cover taxes. . . .

"The maximum credit to be made available under a VT loan is to be determined by the borrower and the financing institution and will depend upon an estimate of the borrower's maximum needs in the event of termination. Normally the Navy Department will not question the amount so determined since in any case the borrowing formula will limit the loan to a percentage of war production receivables, inventories, and monies paid or concurrently to be paid to suppliers and subcontractors in settlement of their cancellation claims."[3]

How V and VT Differ

There are, however, five basic differences between a VT and a V loan. In the first place, a V loan may bear a 100 per cent guarantee. A VT loan, on the other hand, must have at least a 10 per cent participation by the lending bank or banks. In the second place, most, but not all V loans bear a relatively short maturity; VT loans may be granted for periods up to three and one-half years. In the third place, the guaranteeing agency is not quite so restrictive in setting up the amount for a VT loan as for a V loan. In the fourth place, Section 5, the "step-ladder clause," does not apply in VT loans. In other words, the bank does not obtain an increasing percentage of protection with an increase in the per-

[3] Issued February 29, 1944.

centage of cancellation. In the fifth place, a commitment fee is charged and is always shared with the guaranteeing agency.

Naturally a contractor that is in a weak financial condition cannot obtain a VT loan as his depository bank will be reluctant to take 10 per cent of the loan. In such a situation, a V loan is generally arranged with the latest borrowing formula allowing loans against a stipulated percentage of receivables, inventory, and amounts paid or about to be paid to subcontractors, applying to cancelled as well as to uncancelled contracts. In case of 100 per cent cancellation of the V loan, the bank is fully protected against loss by the "stepladder clause."

The typical formula in a VT loan agreement provides for a loan up to 85 or 90 per cent of receivables plus 75 to 80 per cent of inventory, plus a 75 per cent advance on payments made or about to be made to subcontractors. In case of a VT loan, however, as the percentages apply both to cancelled and uncancelled contracts, increased borrowings may be drawn down after cancellation. Occasional loan agreements allow a 100 per cent advance against receivables where the finished products creating the receivables have been inspected and accepted.

For Example . . . .

In theory, neither a V nor a VT loan will completely release frozen working capital. Take the case of a corporation with a net working capital of $1,500,000 and an inventory against war contracts of $5,000,000. The borrowing formula allows a loan of 90 per cent against receivables and 85 per cent against inventory. On the basis of the 85 per cent advance against inventory, alone, the contractor would have $750,000 or one-half of his net working capital frozen. That is a substantial percentage to be frozen at termination, without considering the 10 per cent of the receivables which presumably would be collected within a relatively short period.

In contrast to this partial frozen working capital position, however, there will generally be found a strong cash position, in this instance, cash of $2,600,000. Such a typically strong cash position is created to offset accrued future payments of Federal income and excess profits taxes, refunds as a result of renegotiations, and possible refunds on profits which have not yet been renegotiated. The use of such cash for a period of months, the War Depart-

ment and the Navy Department feel, will greatly mitigate what at first glance seems to be a partial frozen working capital condition. Should situations arise where a substantial portion of net working capital is actually frozen at termination, and at the same time the cash position is weak, it is likely that the borrowing formula would be upped by the guaranteeing agency to 100 per cent of receivables and 90 or 95 per cent of the inventory.

Now Proposed: T Loans

In their report of February 15, 1944, to the Director of War Mobilization, Bernard M. Baruch and John M. Hancock suggested a still further modification of V and VT type loans to be known as the T (termination) loan. As we have seen, V loans originally were taken out to aid war production, but subsequently evolved to the point that some portion of the loan could be made at termination. VT loans were set up for both production and termination needs. Both V and VT loans must be arranged prior to cancellation. The proposed T loan would be available at termination.

The individual T loan, as proposed, would be based on an estimate of the applicant's receivables, inventory, work in process, and amounts paid or about to be paid to subcontractors or suppliers in the tier below. These loans would be made by depository banks, that would assume, in general, at least 10 per cent of the risk as with VT loans, the procurement agency guaranteeing the remainder. Maturity according to present plans would be two years from the date of the initial borrowing.

Security would consist of the assignment of cancelled contracts, or in the case of strong corporations, a covenant to assign the contracts. The borrowing formula would be the same or very similar to a VT formula with the possible addition of a liberal net minimum working capital provision related to a percentage of the net working capital existing at the time the loan agreement was made, that is, the net working capital could not be reduced below 33⅓ per cent or 50 per cent (the percentage is still to be determined) of the net working capital at the time of signing the loan agreement. Such a provision would allow management to spend some portion of their cash for machinery and equipment needed for converting to peacetime operations but would place a reasonable limit on the amount of funds which could be used for this purpose.

Many prime contractors now have a choice of obtaining and using credit from a commercial bank and trust company on their own responsibility, from any one of the five supplementary sources of bank credit mentioned in the second paragraph of the first part of this article (page 9, June), by progress payments, or by an advance. If a manufacturer, whether a prime contractor or a sub, is in sound financial shape, the potential bank credit might be granted on its unsecured note; if the concern is somewhat extended, the bank credit might be granted on the assignment of claims against the Federal Government, or on some other secured bankable basis. Whether the manufacturer is in sound or weak financial condition, credit may now be obtained in the form of a V or a VT loan from the War Department and the Navy Department, but only in the form of a V loan from the U. S. Maritime Commission.

With these financial alternatives available, many managements have selected the advance and have used it in lieu of bank credit. Probably this situation has occurred more with prime contractors working for the War Department than for the Navy, as with a smaller number of outstanding contracts the Navy has formulated more definite rules regarding the type of manufacturers they will finance either by progress payments, by advances, or by the guarantee of V or VT loans.

Loan Trend Analyzed

In a national emergency of the character which we have been going through, it is impossible to adhere strictly to any preconceived policy, but, by and large, the Navy has inclined toward the policy of financing by advances only those manufacturers that could not obtain adequate credit to finance their Navy contracts from their depository commercial banking institutions and where a 100 per cent guarantee would otherwise be required under a V loan. Less than 4 per cent of the number of authorized loans and approximately 4 per cent of the number of outstanding V loans of the Navy carry a 100 per cent guarantee.

Where a full guarantee is necessary, the same result with better control is obtained from the viewpoint of Federal agencies by financing prime contractors by means of advance payments. As advances cannot be made directly to subcontractors, and as it is difficult to get advances through the prime contractor to the subcontractor, the prac-

tical alternative is a 100 per cent V loan guarantee.

On February 2, 1944, the Bell Aircraft Corporation that had obtained a V loan commitment of $60,000,000 from 28 banks, paid off its outstanding V loan, and converted its financing primarily to advances, with a supplement VT loan to cover a particular part of its business, from the War Department. Up to this time, many manufacturers had changed over from the use of advances to V and VT loans to finance war contracts. Here is an exception to the trend, probably because funds obtained by advances in this case were materially cheaper, and probably because there was a feeling that at termination, one step would already have been accomplished under advances where all checks which are drawn from controlled bank accounts to pay merchandise suppliers, salaries, wages, and overhead expenses would have been countersigned by a representative of the War Department. Such a signature on checks might possibly tend to carry tacit approval of expenditures, so that at termination, somewhat less intimate examination of expenses might be required.

Finance Plans Compared

Responsible corporations, in many cases, have used two methods of financing current operations; customary short-term unsecured bank credit to finance their normal non-war manufacturing processes, and advances to finance the production of war equipment and supplies. Probably more concerns of this character have received advances from the War Department than from the Navy Department. Occasionally, however, some such corporation that is working out a particularly strategic contract, such as the manufacture of torpedoes in a Government-owned plant, will insist upon advances to finance its Navy contract, and will obtain the advance. There has been a tendency, moreover, for skilled management to keep the financing of war contracts separate and distinct from the financing of normal business.

Where advance payments are used, the advance because of closer control is generally smaller than the amount of credit which would be made available by a V loan on the same case. The V loan commitment in turn, would generally be smaller than the credit which would be made available under a VT loan commitment. The length of the credit follows in the same order, shortest with an advance, longer with

a V, and still longer with a VT loan.

V and VT loans have been made not only by commercial banks and trust companies but also by the Reconstruction Finance Corporation, by Federal Reserve Banks, by specialized finance companies, and by one life insurance company. These first two situations have generally arisen where a manufacturer was obtaining credit from either the Reconstruction Finance Corporation or a Federal Reserve Bank, and while so indebted, became a prime contractor or subcontractor. No V or VT loans have been made by the Smaller War Plants Corporation.

One unique situation exists where a prime contractor with a V loan operated unprofitably and was just about ready for bankruptcy. The Smaller War Plants Corporation then came along and granted a loan, the guaranteeing agency of the prior V loan executing a standby agreement until the maturity of the new loan. If the loan by the Smaller War Plants Corporation is not paid off at maturity, then the standby agreement expires and the old and new loans are on the same basis.

Evolution Met Needs

The gradual evolution of a type of loan which would assist and protect contractors, both primes and subs, that would negotiate for such a loan prior to termination, has come out of this war economy. Two different situations, both of great importance to contractors, have developed. In the first place, the formula of a VT loan providing typically for an advance of 90 per cent on receivables, 85 per cent on inventory, and 75 per cent on amounts paid or about to be paid to suppliers and subcontractors does not, as we have seen, completely thaw out working capital. The extent to which net working capital under such a formula would remain frozen depends upon the relationship between the size of the net working capital and the size of receivables plus inventories plus amounts to be paid to subcontractors, and upon the borrowing formula. In many cases, as already outlined, the strong cash position would tend to relieve this condition.

In the second place, many contractors that might desire the protection of VT loans at cancellation are in weak financial condition. The associated bank or banks naturally will not become a party to a VT loan under such circumstances where a minimum 10 per cent interest must be taken in the loan and where Section 5 does not ap-

ply. In such situations, V loans with the provisions allowing for percentage loans against receivables, inventory and amounts paid or about to be paid to suppliers and subcontractors applied to cancelled as well as uncancelled contracts, are negotiated.

V and VT loans to be effective at termination must be taken out prior to cancellation. Contractors that have decided not to take out V or VT loans as a result of their own analyses, on advice of counsel, or that have failed to get around to the consideration of this vital subject as a result of manifold manufacturing problems or inertia, have been critically afflicted with 100 per cent cancellation. The T loan legislation may provide the answer.*

Total Loans Granted

The amount of loans authorized under V and VT agreements by the War Department, Navy Department, and the U. S. Maritime Commission, the percentage guaranteed, and the amounts available and unused under these agreements have expanded steadily every month since the inception of this financing program. On December 31, 1942, total authorized V loans amounted to $2,688,397,000, of which $803,720,000 was outstanding. On December 31, 1943, total authorized V and VT loans amounted to $6,563,048,000 of which $1,914,040 was outstanding. At the end of 1942, 78.7 per cent of outstanding V loans were guaranteed, at the end of 1943, 83.6 per cent of V and VT loans were guaranteed.

On April 30, 1944, V and VT loans outstanding totalled $1,990,996,000 of which $1,666,185,000 was guaranteed. Unused commitments available to borrowers under these loan agreements aggregated $3,684,568,000. It is evident that thousands of contractors have failed to realize the fundamental significance to them of V and VT loans at termination and have made little effort to tie these advantages into their own respective business operations.

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* While this study was in proof form, Congress passed the "Contract Settlement Act of 1944" on June 22, 1944. The act was before the President for his signature when printing of this issue started. Section 10 of this act authorized T loans "to any war contractor or to any person who is or *has been* engaged in performing any operation deemed . . . . to be connected with or related to war production. . . . " In other words, T loans according to this legislation may now be obtained by a contractor after termination whereas V and VT loans had to be negotiated prior to termination.

No loan formula has been determined for T loans so far by the War Department, the Navy Department, or the U. S. Maritime Commission, and no regulations have been issued by the Board of Governors of the Federal Reserve System. Tentative plans have been made for a meeting of War Department personnel engaged in authorizing financing arrangements, in Washington during the latter part of July. It is hardly likely that any T loans will be negotiated until after that meeting as no routine will be set up to negotiate such loans until that time. It is quite likely that authorization of T loans by the War Department, the Navy Department, and the U. S. Maritime Commission will be more nearly alike than their respective activities covering the authorization of V and VT loans.